

Message Text

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51

ACTION FRB-02

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03

PA-03 PRS-01 USIA-15 AGR-20 ABF-01 FSE-00 DRC-01 /195 W
----- 026130

R 051744Z OCT 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4575

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

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DEPARTMENT FOR FRB

E.O. 11652: N/A

TAGS ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 5

BEGIN SUMMARY: THE POUND REMAINED RELATIVELY UNCHANGED

AGAINST THE DOLLAR THIS WEEK. THE TRADE-WEIGHTED

DEVALUATION WIDENED TO 19.73 PERCENT ON TUESDAY (OCT. 2)

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BUT NARROWED TO 19.63 PERCENT ON THURSDAY (OCT.4), THE

WEEK'S LOW. GOLD FELL AT THE BEGINNING OF THE WEEK BUT RECOVERED SOMEWHAT TO CLOSE AT \$98.75 ON THURSDAY (OCT. 4), DOWN \$2.50 FROM LAST THURSDAY'S CLOSE. UK OFFICIAL RESERVES FELL BY \$134 MILLION DURING SEPTEMBER TO STAND AT \$6,382 MILLION AT THE END OF THE MONTH. THE VOLUME OF RETAIL SALES IN AUGUST REMAINED VIRTUALLY THE SAME AS IN JULY. FIGURES ON HIRE-PURCHASE AND INSTALLMENT CREDIT BUSINESS SHOW LITTLE CHANGE FROM THE PATTERN OF RECENT MONTHS. IMPORT PRICES ROSE 4 PERCENT IN AUGUST AND ARE NOW 30 PERCENT ABOVE A YEAR AGO. FINANCE HOUSE BASE RATES FOR CERTAIN LONG-TERM COMMERCIAL AND INDUSTRIAL LOANS WERE RAISED ON OCT. 1 BY 2 PERCENT TO A RECORD 14 PERCENT. THE LATEST FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION INDICATES SHORTAGES OF RAW MATERIALS, COMPONENTS, AND LABOR ARE STEADILY GROWING WORSE, AND INDUSTRY FEARS A FURTHER ACCELERATION IN COST INFLATION. END SUMMARY

1. STERLING TRADED IN A RANGE OF \$2.4119-1/2 TO \$2.4145 AGAINST THE DOLLAR THIS WEEK, CLOSING ON THURSDAY (OCTOBER 4) AT \$2.4130. THIS WAS A FALL OF 65 POINTS ON LAST THURSDAY'S CLOSE. THE TRADE-WEIGHTED DEPRECIATION OF STERLING AGAINST SMITHSONIAN PARITIES REACHED 19.73 PERCENT ON TUESDAY (OCTOBER 2) BUT NARROWED ON THURSDAY (OCTOBER 4) TO 19.63 PERCENT COMPARED TO 19.49 PERCENT LAST THURSDAY. GOLD ROSE TO \$99.50 ON WEDNESDAY (OCTOBER 3) BUT FELL BACK TO \$98.75 ON THURSDAY.

2. UK OFFICIAL RESERVES FELL BY \$134 MILLION DURING SEPTEMBER, TO STAND AT \$6,382 MILLION AT THE END OF THE MONTH. IF INFLOWS FROM PUBLIC SECTOR BORROWINGS OF \$329 MILLION WERE EXCLUDED, RESERVES WOULD HAVE FALLEN BY \$463 MILLION. THE HEAVY OUTFLOW PARTLY REFLECTS BRITAIN'S LARGE CURRENT ACCOUNT DEFICIT AND SUPPORT OPERATIONS UNDERTAKEN IN EARLY SEPTEMBER TO STRENGTHEN THE POUND. THE FIGURES OF \$134 MILLION AND \$6,382 MILLION ARE EQUIVALENT TO APPROXIMATELY 47 MILLION POUNDS AND 2,204 MILLION POUNDS IF CONVERTED AT L POUND EQUALS \$2.89524 OR 56 MILLION POUNDS AND 2,644 MILLION UNCLASSIFIED

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POUNDS IF CONVERTED AT THE CLOSING MARKET RATE OF SEPTEMBER 28 OF 1 POUND EQUALS \$2.4135.

3. THE INDEX OF THE VOLUME OF RETAIL SALES IN AUGUST WAS 116.0 (S.A., 1966100), VIRTUALLY UNCHANGED FROM JULY. THE FIGURES DO CONFIRM THAT TURNOVER HAS REMAINED HIGH FOLLOWING THE DIP AFTER THE PRE-VAT SPENDING BOOM OF THE FIRST QUARTER. RETAIL SALES DID RISE 7.4 PERCENT

BETWEEN THE FOURTH QUARTERS OF 1971 AND 1972 AND HAVE
RISEN 6 PERCENT DURING THE FIRST EIGHT MONTHS OF 1973
WHEN COMPARED TO THE SAME PERIOD IN 1972. HOWEVER, A
DEFINITE SLOWING CAN BE SEEN WHEN THE MARCH-MAY
PERIOD IS COMPARED TO JUNE-AUGUST, WHEN VOLUME ROSE AT AN
ANNUAL RATE OF ONLY 4.4 PERCENT.

4. NEW INSTALLMENT CREDIT ADVANCED BY RETAILERS AND
FINANCE HOUSES IN AUGUST AMOUNTED TO 252 MILLION POUNDS
(S.A.). FINANCE HOUSES' LENDING, AT 133 MILLION
POUNDS, SHOWED A CONSIDERABLE INCREASE OVER THE FIGURES
FOR THE PREVIOUS FOUR MONTHS AND WAS ABOUT THE SAME AS
THE MONTHLY AVERAGE FOR THE FIRST QUARTER OF 1973.

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ABF-01 FSE-00 PA-03 PRS-01 USIA-15 AGR-20 DRC-01 /195 W

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R 051744Z OCT 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4576

INFO AMEMBASSY BERN

AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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LENDING BY RETAILERS AMOUNTED TO 119 MILLION POUNDS IN AUGUST, CONTINUING THE UPWARD TREND OF RECENT MONTHS BUT STILL A LITTLE BELOW THE FIRST QUARTER AVERAGE.

5. UK IMPORT PRICES ROSE BY 4 PERCENT IN AUGUST WHILE EXPORT PRICES ROSE BY 2 PERCENT, INDICATING A FURTHER DETERIORATION IN THE UK'S TERMS OF TRADE. THE OFFICIAL UNCLASSIFIED

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TERMS OF TRADE INDEX - WHICH MEASURES AVERAGE EXPORT PRICES AS A PERCENTAGE OF AVERAGE IMPORT PRICES - FELL BY 1.8 POINTS TO 89.0 (1970100). THE 30 PERCENT RISE IN IMPORT PRICES OVER THE PAST YEAR REFLECTS THE DEVALUATION OF STERLING AS WELL AS THE WORLD COMMODITY PRICE BOOM. THE RISE IN AUGUST INCLUDED A 10 PERCENT INCREASE IN THE PRICE OF CRUDE OIL.

6. FINANCE HOUSE BASE RATES FOR CERTAIN LONG-TERM COMMERCIAL AND INDUSTRIAL LOANS ROSE BY 2 PERCENT TO A RECORD 14 PERCENT ON MONDAY. THE FHA BASE RATE IS GEARED AUTOMATICALLY TO THE AVERAGE COST OF MONEY IN THE THREE-MONTH INTER-BANK MARKET. THE CHANGE IN THIS RATE DOES NOT AFFECT FINANCE HOUSE CONSUMER LENDING, WHICH IS AT FIXED RATES. MANY LOANS, HOWEVER, TO INDUSTRY AND COMMERCE FOR INDUSTRIAL INVESTMENT AND INVENTORIES ARE ON A VARIABLE RATE, AND INTEREST RATES ON THESE WILL GO UP.

7. THE FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION GIVES THE GENERAL IMPRESSION THAT THE CONSUMER BOOM IS LASTING LONGER THAN EXPECTED, ALTHOUGH THE CONSUMER TRADES ARE NOW SOMEWHAT LESS OPTIMISTIC ABOUT PROSPECTS FOR THE WINTER MONTHS. BUSINESSMEN HAVE ALSO BECOME LESS CONFIDENT ABOUT THE GENERAL ECONOMIC SITUATION. AMONG THE WORRYING FACTORS CITED ARE HIGH INTEREST RATES, THE POSSIBILITY OF INDUSTRIAL UNREST THIS WINTER, FEARS OF ANOTHER "STOP" HAVING TO BE IMPOSED AND CONCERN THAT INFLATION MAY ERODE THE PRICE COMPETITIVENESS OF UK EXPORTS. ORDERS AND OUTPUT TRENDS REMAIN HIGH DESPITE GOVERNMENT PREDICTIONS OF A SLOWDOWN IN THE GROWTH OF PERSONAL CONSUMPTION.

8. THE FORWARD DISCOUNT ON STERLING DROPPED SHARPLY ON TUESDAY AND GENERALLY NARROWED OVER THE WEEK.

	9/27	10/4	CHANGE
1 MONTH	0.76	0.52-1/2	DOWN 0.23-1/2
3 MONTHS	2.59-1/2	2.29-1/2	DOWN 0.30
6 MONTHS	4.70-1/2	4.55-1/2	DOWN 0.15

(ALL FIGURES IN CENTS)

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9. LOCAL AUTHORITY DEPOSIT RATES GENERALLY ROSE AT MID-WEEK BUT THEN FELL BACK.

	9/27	10/4	CHANGE
1 MONTH	12-1/2	12-9/16	UP 1/16
3 MONTHS	13-15/16	13-1/8	DOWN 13/16
6 MONTHS	13-1/2	13-1/8	DOWN 3/8

10. EURO-DOLLAR RATES MOVED ERRATICALLY.

	9/27	10/4	CHANGE
1 MONTH	10-3/8	11-1/4	UP 7/8
3 MONTHS	10-1/2	10-11/16	UP 3/16
6 MONTHS	10-1/2	10-1/4	DOWN 1/4

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT LL.5 PERCENT.

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